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January 23, 2015

**VIA FEDEX AND EMAIL**

Timothy W. Salter  
Blank Rome LLP  
405 Lexington Avenue  
New York, NY 10174-0208

Re: *Lehman Brothers Holdings Inc. Indemnification Alternative Dispute Resolution  
Notice to Stearns Lending, Inc.*

Dear Mr. Salter:

Enclosed please find Lehman Brothers Holdings Inc.'s ("LBHI") Indemnification Alternative Dispute Resolution Notice to Stearns Lending, Inc., pursuant to the *Alternative Dispute Resolution Procedures Order for Indemnification Claims of the Debtors Against Mortgage Loan Seller, Stearns Lending, LLC f/k/a Stearns Lending, Inc.*, dated July 21, 2014 (the "Order"). The enclosed Indemnification ADR Package includes the following:

- Indemnification ADR Notice dated January 23, 2015
- Attachment A—Loan Information
- Attachment B—the July 21, 2014 Order
- Attachment C—Evidence Preservation Notice

For your convenience, we have also enclosed a Document Index that identifies the document Bates range associated with each Borrower. Instructions for accessing and downloading the documents (LEH-STEARNNS\_0000001 – LEH-STEARNNS\_0002669) will follow.

Thank you for your attention to this matter.

Sincerely,

  
William A. Maher

Enclosures

**LEHMAN BROTHERS HOLDINGS INC.'S**  
**INDEMNIFICATION ALTERNATE DISPUTE RESOLUTION NOTICE**  
**("INDEMNIFICATION ADR NOTICE")**

**Pursuant to the attached Order entered by the United States**  
**Bankruptcy Court for the Southern District of New York, you, the Seller identified below,**  
**are required to respond to the Debtor on or before**  
**the Response Due Date set forth herein**

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Indemnification ADR Notice No.: 945-2183

Debtor: Lehman Brothers Holdings Inc. ("LBHI")

Seller: Stearns Lending, Inc. ("Seller")

Loan(s) Information: See Attachment A (the "Loan(s)")

Parties to Mediation: LBHI and Seller

Subject of Mediation: LBHI's indemnification claims against Seller

**Documents:**

Mortgage Loan Purchase Agreements made by and between Aurora Loan Services, Inc. ("Aurora") and First Pacific Financial, Inc., and Lehman Brothers Bank, FSB, ("LBB") and First Pacific Financial, Inc. (the "Loan Purchase Agreements"), and the incorporated Seller's Guide, (the "Seller's Guide"),<sup>1</sup> and the Assignment Agreement between Aurora and LBHI (the "Assignment Agreement"), and other related documents and materials.

Documents and materials concerning the above-referenced loans, bearing production stamps LEH-STEARNs\_0000001 – LEH-STEARNs\_0002669, are available for download through a secure data repository website. For security purposes, instructions and credentials for accessing the website will be provided separately. These documents have been stamped "Confidential" pursuant to Paragraph 13 of the *Alternative Dispute Resolution Procedures Order for Indemnification Claims of the Debtors Against Mortgage Loan Seller, Stearns Lending, LLC f/k/a Stearns Lending, Inc.*, dated July 21, 2014 (the "Order"), annexed hereto as Attachment B.

The "Fannie Mae-LBHI Settlement Agreement" and "Freddie Mac-LBHI Settlement Agreement," referenced in Attachment A, are exhibits to the following documents filed in Case No. 08-13555 in the Southern District of New York Bankruptcy Court:

- Docket No. 42153 (Fannie Mae Settlement Agreement attached as Annex A)
- Docket No. 42754 (Freddie Mac Settlement Agreement attached as Annex A)
- Docket No. 42907 (Amendments to Freddie Mac Settlement Agreement)

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<sup>1</sup> Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Loan Purchase Agreements or Seller's Guide.

The documents are available at [www.lehman-docket.com](http://www.lehman-docket.com) and may be accessed by clicking on the "Docket" heading and entering each Docket No. in the General Criteria, Docket Number(s) box located on the left hand side of the web page.

**Settlement Demand:**

LBHI seeks payment in the amount of \$2,838,282.33, which represents the total amount to satisfy Seller's indemnification obligation arising from LBHI's resolution of bankruptcy claims brought by the Federal National Mortgage Association ("Fannie Mae") and/or the Federal Home Loan Mortgage Corporation ("Freddie Mac," and together with Fannie Mae, the "GSEs"), to whom LBHI sold loans originated and/or sold by Seller to LBHI (the "Disputed Amount").

LBHI also seeks \$98,678.91 in prejudgment interest ("Prejudgment Interest") on the Disputed Amount at the statutory rate of nine percent (9%) from the date of LBHI's initial demand letter, dated September 4, 2014, to the date of this Notice. Interest will continue to accrue until LBHI receives actual payment.

In addition to the Disputed Amount and Prejudgment Interest, LBHI is entitled to its Attorneys' Fees in connection with enforcing Seller's obligation for indemnification. In an effort to resolve these matters in ADR as opposed to litigation, LBHI is not seeking its Attorneys' Fees at this time. However, LBHI reserves the right to seek Attorneys' Fees.

**Explanation of Basis for Settlement Demand:**

1. Disputed Amount. Aurora and LBB purchased the Loans from Seller pursuant to the Loan Purchase Agreements. Aurora and LBB subsequently sold the Loans to LBHI and assigned to LBHI their contractual rights with respect to the Loans, including their right to indemnification. LBHI, in turn, sold the Loans to one or more of the GSEs, and retained the contractual right to seek indemnification from Seller in the event LBHI became liable for an indemnified event or circumstance. Section 711 of the Seller's Guide, provides, in pertinent part, as follows:

Seller shall indemnify Purchaser and Purchaser's designees (including, without limitation, any subsequent holder of any Note) from and hold harmless against all claims, losses, damages, penalties, fines, claims, forfeitures, lawsuits, court costs, reasonable attorney's fees, judgments and any other costs, fees and expenses that the Purchaser may sustain in any way related to or resulting from any act or failure to act or any breach of warranty, obligation, representation or covenant contained in or made pursuant to this Seller's Guide or the [LPA] by . . . Seller[.] . . . In addition . . . Seller agrees that it shall pay the reasonable attorney's fees of Purchaser incurred in enforcing Seller's obligations hereunder[.]

It has settled that liability under the January 22, 2014, and February 12, 2014 settlements with Fannie Mae and Freddie Mac, respectively. The United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") approved those settlements, and with

them, the allowed loan-level claims made by the GSEs in LBHI's bankruptcy. Among those claims are claims concerning the loan number(s) identified in Attachment A in an amount equal to the Disputed Amount. The allowed claims are based on events or circumstances for which the Seller is liable as LBHI's indemnitor. *See* Attachment A and related documents.<sup>2</sup>

LBHI's settlements with the GSEs have now triggered Seller's duty to indemnify LBHI.

2. Prejudgment Interest. In addition to the Disputed Amount, under governing law, LBHI is owed prejudgment interest at the statutory rate of 9% per annum. N.Y.C.P.L.R. 5001; 5004. Interest will continue to accrue on the outstanding balance until payment is made to LBHI.

**Notice:**

LBHI hereby designates the dispute concerning the above-referenced loans as an Indemnification ADR Dispute pursuant to Paragraph 3 of the attached Order.

In accordance with the Order, participation in the Indemnification ADR Procedures set forth therein is mandatory. Order ¶ 6.

The Order identifies two stages in the Indemnification ADR Procedures: 1) the Notice/Response Stage, and 2) the Mediation Stage. Order ¶¶ 8-10.

This Notice serves to trigger the Notice/Response Stage as described in Paragraphs 8 and 9 of the Order, which require that Seller respond to this Indemnification ADR Notice with a written Statement of Position within twenty-eight (28) days from the date of service of this Indemnification ADR Notice. Order ¶ 8. The response options available to the Seller are described in Paragraph 8(b) of the Order. Failure to provide a timely response may lead to sanctions being imposed against the Seller. Order ¶ 8.

Once Seller submits its written Statement of Position to LBHI, LBHI will have the option of providing a reply within fifteen (15) days of the date of the receipt of Seller's response, or proceeding to the Mediation Stage. Order ¶ 8(d). The Mediation Stage is described in Paragraph 10 of the Order.<sup>3</sup>

Date of Indemnification ADR Notice: January 23, 2015

Date of Service: January 26, 2015

Response Due Date: February 23, 2015

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<sup>2</sup> LBHI does not forfeit or waive the right to disclose or identify additional claims and/or additional bases for its claims, and hereby expressly reserves all rights, claims, and defenses against Seller associated with the above-referenced loan(s).

<sup>3</sup> Seller is also obligated to preserve evidence as set forth in Attachment C to this Notice.

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Certain of Its Affiliates